HOUSING MARKET OUTLOOK

Charlottetown CA

Canada Mortgage and Housing Corporation

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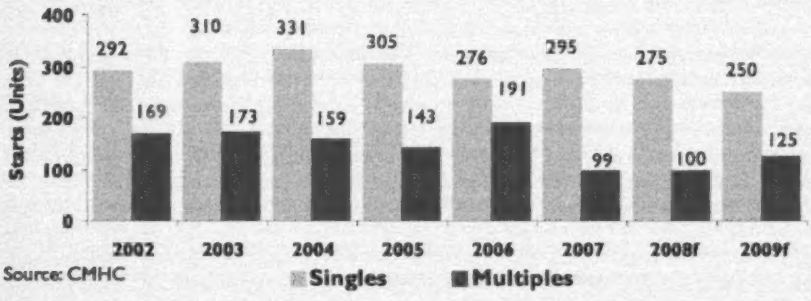
Migration and Interest Rates to Keep the Housing Market Stable

Since 2002, the Charlottetown housing market has been performing at an above average level but recent indicators are showing that the market is beginning to slow. The most recent peak in the housing cycle has been fueled by historically low interest rates, strong employment growth, positive migration, relatively low home prices at the start of the cycle and strong consumer confidence. While little has occurred to the overall market fundamentals since the first quarter of 2007, there are signs that an overall slowdown can be expected for the remainder of 2008.

Employment in the capital region is expected to exceed the average annual record level set in 2007 with 32,450 people working, an increase of almost one per cent over the previous year. The trend of increased employment has carried into the first quarter of 2008, as

Figure 1

Single Construction to Slow Over the Forecast Period



Source: CMHC

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total employment reached a new record high of slightly more than 32,000 people employed. A promising aspect of the employment growth in the first quarter was that it was the result of increases in full-time employment. This is seen as a plus for the local housing market as full-time employment, generally results in improved salary and job security compared to part-time employment. As such, people are more likely to participate in the housing market. As these results are only from the first quarter, the trend may change during the course of the year, but the current forecast is calling for an overall increase in employment over the 2007 level.

Positive net-migration is one of the key factors that contributes to a strong housing market, as a growing population requires more housing of all types. This is one of the reasons why the Charlottetown area has been performing well over the past six years. During the timeframe 2001 to 2006, the latest census period, the Charlottetown CA, which encompasses the entire urban area around the city, recorded a population growth of 1,391 people or 2.4 per cent. This pace of growth is consistent with other centres in Atlantic Canada, but below the national average of 5.4 per cent. These results are also very close to what was expected, based on Statistic Canada's Tax Filer data, which showed that on average nearly 300 people per year moved to the area.

Statistics Canada's Tax Filer data also provides migration estimates on an annual basis. When examined for the Charlottetown area, it is clear that in-migration to the area peaked in 2004 with almost 450 people relocating to the capital region. However, in subsequent years the annual flow of people to the area has been drifting down, as the data for 2006 shows that only about 180 people moved to the region. The reason for this decline can be found in the same dataset, as it also provides a place of origin for migrants. For the Charlottetown area it has been typical that about 70 per cent of the people moving to the capital region have come from elsewhere in the province, while the remainder are from other regions of the country. While this ratio had remained fairly constant since the 1990's it has recently begun to shift. The reason for this has been the movement of people to Alberta. This was not unexpected though as the draw of the west was particularly strong during this two year period as western companies were actually in the area recruiting workers. It should also be noted that most of the people that relocated during this period where in the 18-24 cohort. This should come as no surprise to people as the Atlantic region has a history of losing people from this cohort group. It is expected though that we reached the peak for out-migration to Alberta in 2006, as migration numbers have since begun to rebound.

The most positive aspect, from a housing perspective, of recent migration trends has been the in-flux of people in the 45-64 cohort. When taking into account local information, it appears that there is a fairly strong movement of ex-Islanders moving home to retire or finish their careers. The benefit to the local housing market is that many of these people are coming from more expensive housing markets, which has allowed them to accumulate equity. This in part can explain the increase in new home prices over the past five years. This trend of people moving home is expected to continue over the forecast period and the trend should get stronger over time due to the large number of people still in a similar situation. Overall, it is expected that migration trends during the forecast period will favour the homeownership market.

Interest rates have remained low over the past few years and they are not expected to increase significantly over the forecast period. Posted mortgage rates eased by about

Figure 2

Average Price To Rise Over the Forecast Period

Source: PEI Real Estate Board & CMHC Forecast

50 basis points in the first four months of this year, although rates in late April were 30 to 35 basis points higher than they were 12 months prior. Mortgage rates are expected to trend marginally lower throughout 2008, but will be within 25-50 basis points of their current levels. For 2009, posted mortgage rates will begin to drift up slightly as the year progresses. For 2008 and 2009, the one-year posted mortgage rate is forecast to be in the 6.50-7.50 per cent range, while three and five-year posted mortgage rates are forecast to be in the 6.75-7.50 per cent range.

While the local housing market has been performing well above average since 2002, it is expected to return to more sustainable levels this year and next. With the trends of in-migration and low interest rates expected to persist, the homeownership market will fare particularly well during the next year.

Average MLS® Sale Price to Rise

The number of residential MLS® transactions in the Charlottetown area had been in the range of 500 units per year since 1998, but in the last two years has climbed to an annual average of well over 600 units. This current trend of annual sales above 600 units per year is expected to continue over the forecast period. One of the major factors buoying local MLS® sales is the rising cost of new homes. Currently there is approximately a $60,000 difference between the price of a new home versus an existing one. As such potential buyers of new homes, especially first-time buyers, will give the resale market a serious look before choosing to build.

There are however a number of factors working against the local market, with the two most prominent items being fewer listings, and the recent increase in price growth. While the number of listings has been on the rise since the low in 2004, there are now only a handful of listing under $130,000. This when combined with an average price now topping $170,000 will limit some first-time buyers from entering the market. As such, the slight declines expected over the next two years will come mainly from fewer first-time buyers in the market place.

Average price growth is expected to slow in 2008 after jumping by almost $30,000 since 2006. This slowing is expected due to the higher number of new listings in the middle range of the market, which will provide potential homebuyers with greater choice. Expect the average MLS® sales price to grow by 4.0 per cent in 2008 before reaching a more moderate 3.8 per cent increase in 2009.

New Home Construction Poised to Slow

New home construction in the Charlottetown CA should slow over the next two years, due to fewer single-detached starts. Semi-detached rebounded in 2007, and are expected to remain prominent over the forecast period. This will be the result of strong demand for the product from first-time home buyers. As first-time buyers often show a preference for new homes compared to existing, and the cost of new single-detached homes is now well out of the budget for many potential buyers, semi-detached units are the logical alternative for these buyers. As such it is expected that the number of semi-detached units will exceed the 2007 level in both of the next two years.

Rental starts have been on the decline every year except one since reaching a 15 year high in 2002 with 143 units. This has been due in part to a rising vacancy rate which reached 4.3 per cent in 2007, from the near record low of 1.8 per cent in 2001. With the vacancy rate expected to stay near the four per cent mark over the forecast period, expect to see developers continuing to focus on multiple starts for the home-ownership market. As such, rental starts are expected to remain below the ten-year average over the forecast period, but multiple starts overall will remain almost flat with 200 and 175 units in 2008 and 2009 respectively.

Single starts, although slowing from the near record pace set in 2004, have continued to remain at above average levels. This expected decrease can be partially attributed to rising new home prices which have caused some potential buyers to opt for the resale market. Of the homes being built though, one can expect them to be larger and more elaborate, due in part to the aforementioned trend of in-migration driving demand for high-end homes. Expect single-detached starts to slow to 275 units in 2008, and to 250 units in 2009.

Forecast Summary
Charlottetown CA
Spring 2008

	2005	2006	2007	2008f	% chg	2009f	% chg
Resale Market							
MLS® Sales	556	634	650	625	-3.8	600	-4.0
MLS® New Listings	783	903	970	940	1,000	900	-4.3
MLS® Average Price ($)	136,364	153,549	166,244	170,000	2.3	175,000	2.9
New Home Market							
Starts:							
Single-Detached	305	276	295	275	-6.8	250	-9.1
Multiples	143	191	99	100	1.0	125	25.0
Starts - Total	448	467	394	375	-4.8	375	0.0
Average Price ($):							
Single-Detached	188,741	186,774	192,477	192,500	0.0	198,275	3.0
Median Price ($):							
Single-Detached	175,000	175,000	180,000	185,400	3.0	185,500	0.1
New Housing Price Index (% chg.)	4.2	2.2	1.3	3.0	-	3.0	-
Rental Market							
October Vacancy Rate (%)	4.4	4.8	4.3	4.0	-0.3	3.8	-0.3
Two-bedroom Average Rent (October) ($)	617	638	659	670	-	685	-
Economic Overview							
Mortgage Rate (1 year) (%)	5.80	6.30	7.35	6.95	-	6.83	-
Mortgage Rate (5 year) (%)	6.30	6.45	7.54	7.01	-	6.97	-
Annual Employment Level (,000)	31,600	32,175	32,450	32,500	0.2	32,825	1.00
Employment Growth (%)	2.0	1.8	0.9	1.0	-	1.0	-
Unemployment rate (%)	8.1	7.6	6.6	7.4	-	7.6	-
Net Migration (P.E.I.) (1)	71	49	868	500	-42.4	325	-35.0

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over
(1) 2007 migration data is forecasted

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